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	%
First RepublicBank (Sel.), Texas	4.3
First of Chicago (Inst.)	-10.1
Citicorp (Real estate), N.Y.	-13.5
Phoenix Mutual (Gro. S), Conn	-14.5
First of Neenah (Regional), Wis.	-14.7
EF Hutton Trust (Gro. B), Del.	-14.7
Central Fidelity (Agg.), Va.	-15.7
Citicorp (Resources), N.Y.	-16.5
First of Neenah (Inc.), Wis.	-17.9
Associated Kellogg (Gro.), Wis.	-18.1
Society Nat'l (Earnings), Ohio	-18.4
First Trust Co., Minn.	-18.9
Old Second Nat'l (HR 10), Ill.	-19.3
Nat'l Bank/Detroit (Int. value F)	-19.5
Bank of New York (A)	-19.5
Putnam Fiduciary (Putnam gro.)	-19.7
First Nat'l of Tulsa (SW gro.)	-20.1
EF Hutton Trust (Emer. B), Del.	-20.3
Nat'l Bank/Detroit (Oppor.)	-20.7
First of Minneapolis (20)	-20.7
Society Nat'l (Ohio reg.), Ohio	-20.8
Bankers Trust (Sup.), N.Y.	-20.8
Mellon Bank, Pa.	-20.8
Standard & Poor's 500	**-22.5**
Russell 2000	**-29.2**

1-year returns

	%
First RepublicBank (Sel.), Texas	69.5
Citicorp (Resources), N.Y.	24.6
First Trust, Minn.	15.7
First of Minneapolis (20)	15.6
Putnam Fiduciary (Putnam gro.)	13.4
First Alabama, Mobile (CTF)	11.4
EF Hutton Trust (Gro. B), Del.	10.8
Phoenix Mutual (Gro. S), Conn.	9.45
Bankers Trust (Sup.), N.Y.	8.3
Morgan Guaranty (Sup. opp.), N.Y.	8.0
Central Fidelity (Agg.), Va.	7.7
Pacific Financial (Focus gro.), Calif.	7.5
First of Chicago (Inst.)	7.0
Society Nat'l (Earnings), Ohio	6.8
Security Pacific (Gro. G), Calif.	6.2
Bank of New York (A)	5.4
Standard & Poor's 500	**5.3**
EF Hutton Trust (Emerg. gro. B)	5.0
Bank of America (Emp. ben.), Calif.	4.8
LaSalle Nat'l (Small cap.), Ill.	4.4
EF Hutton Trust (5), Del.	4.1
Society Nat'l (Ohio reg.), Ohio	3.9
First of Neenah (Regional), Wis.	3.5
Harris Trust (Sp. cap.), Ill.	3.5
Russell 2000	**-9.4**

3-year returns

	%
First RepublicBank (Sel.), Texas	45.3
EF Hutton Trust (Gro. B), Del.	40.5
EF Hutton Trust (Emerg. B), Del.	37.3
First of Neenah (Regional), Wis.	25.5
Security Pacific (Gro. G), Calif.	23.8
Putnam Fiduciary (Putnam gro.)	23.1
Society Nat'l (Earnings), Ohio	21.3
Fidelity Mgmt. (Agg.), Mass.	21.3
Phoenix Mutual (Gro. S), Conn.	20.9
Trust Co. of the West	20.7
Chase Manhattan (Inter. cap.)	19.3
Manufacturers Hanover (Sup.)	19.0
Harris Trust (Sp. cap.), Ill.	18.7
Central Fidelity (Agg.), Va.	18.4
Standard & Poor's 500	**18.1**
First of Minneapolis (20)	17.9
Society Nat'l (Ohio reg.), Ohio	17.9
First Trust, Minn.	17.9
Old Second Nat'l (HR 10)	17.8
Bankers Trust (Sup.), N.Y.	17.7
Northern Trust, Ill.	17.7
Russell 2000	**7.9**

5-year returns

	%
First RepublicBank (Sel.), Texas	39.3
Fidelity Mgmt. Trust (Agg.), Mass.	21.4
Phoenix Mutual (Gro. S), Conn.	20.4
Trust Co. of the West	19.9
First of Boston (Yield)	17.4
Society Nat'l (Ohio reg.), Ohio	17.2
First Trust Co., Minn.	16.9
Standard & Poor's 500	**16.5**
Citicorp (Real estate), N.Y.	16.3
Manufacturers Hanover (Uncom.)	16.3
Security Pacific (Gro. G), Calif.	16.2
Chase Manhattan (Inter. cap.)	15.5
Manufacturers Hanover (Supple)	15.3
Citicorp (Sp. sit.), N.Y.	15.3
First of Minneapolis (20)	14.7
LaSalle Nat'l (Small cap.), Ill.	14.5
Connecticut Nat'l (Sup.)	14.2
Mellon Bank, Pa.	14.2
Russell 2000	**8.5**

10-year returns

	%
MTrust (Growth), Texas	22.1
First of Maryland	19.7
First of Alabama, Mobile (CTF)	19.1
Citicorp (Sp. sit.), N.Y.	19.0
Manufacturers Hanover (Sup.)	19.0
Connecticut Bank (Emp. sup.)	19.0
Chase Manhattan (Inter. cap.)	18.9
Bank of America (Emp. ltd.), Calif.	18.6
Standard & Poor's 500	**15.3**

Commingled International

3-month returns

	%
Prudential (Foreign bond), N.J.	25.1
Bank of America (Fixed), Calif.	24.6
First of Chicago (Non-$ fixed)	23.6
Toledo Trust (Global fixed), Ohio	22.6
Morgan Guaranty (Bond), N.Y.	20.6
Prudential (Global bond), N.J.	20.3
Wellington Trust (Bond), Mass.	18.8
Citicorp (Fixed), N.Y.	17.5
CIGNA Corp. (Eq.), Conn.	-7.6
Prudential (Foreign stock), N.J.	-9.6
Wells Fargo (Eq.), Calif.	-9.8
Chase Investors (EAFE index)	-10.0
American Nat'l Chicago (Eq.)	-10.2
State Street (Index), Mass.	-10.2
Harris Trust (Eq.), Ill.	-10.2
MSCI EAFE Index	**-10.5**
First of Chicago (Eq.)	-12.4
Wellington Trust (Pacific Basin)	-12.6
Putnam Fiduciary (Trust)	-13.1
Aetna MIM (Eq.), Conn.	-14.2
Centerre Trust (Coll. W), Mo.	-14.6
Toledo Trust (Eq.), Ohio	-14.7
Chase Manhattan (Global), N.Y.	-14.8
MSCI World Index	**-15.5**
Bankers Trust (Eq.), N.Y.	-15.8
Morgan Guaranty (Eq.), N.Y.	-16.5
Citicorp (Eq.), N.Y.	-17.0
Bessemer Trust (E), N.Y.	-20.1
Marine Midland (Eq.), N.Y.	-20.8
Fidelity Mgmt. (Overseas eq.)	-21.2
IDS Trust (Coll. eq.), Minn.	-22.3
Prudential (Print eq.), N.Y.	-22.4
Wellington Trust (Stock), Mass.	-23.1
Confederation Life (Stock), Ga.	-23.6
Bank of America (Eq.), Calif.	-24.2

1-year returns

	%
First of Chicago (Non-$ fixed)	38.7
Prudential (Foreign bond), N.J.	37.8
Toledo Trust (Global bond)	35.2
Bank of America (Fixed), Calif.	34.9
Wellington Trust (Bond), Mass.	30.8
Morgan Guaranty (Bond), N.Y.	30.2
Prudential (Global bond), N.J.	29.6
Bankers Trust (Eq.), N.Y.	29.1
Citicorp (Fixed), N.Y.	27.3
Wells Fargo (Eq.), Calif.	27.3
Wellington Trust (Pacific Basin)	26.4
State Street Bank (Index), Mass.	25.2
MSCI EAFE Index	**24.9**
Prudential (Foreign stock), N.J.	24.9
American Nat'l Chicago (Eq.)	24.8
Chase Investors (EAFE index)	24.3
CIGNA Corp. (Eq.), Conn.	20.6
Fidelity Mgmt. (Overseas eq.)	18.1
First of Chicago (Eq.)	17.4
MSCI World Index	**16.7**
Marine Midland (Eq.), N.Y.	16.5
Confederation Life (Stock), Ga.	14.7
Chase Manhattan (Global eq.)	13.2
Putnam Fiduciary (Trust)	11.3
Aetna MIM (Eq.), Conn.	11.0
Bessemer Trust (E), N.Y.	10.1
Prudential (Print eq.), N.J.	8.2
Centerre Trust (Coll. W), Mo.	8.0
Citicorp (Eq.), N.Y.	7.8
Morgan Guaranty (Eq.), N.Y.	7.3
IDS Trust (Coll. eq.), Minn.	5.6
Bank of America (Eq.), Calif.	5.4
Wellington Trust (Stock), Mass.	4.1
Toledo Trust (Eq.), Ohio	3.5

3-year returns

	%
Fidelity Mgmt. (Overseas eq.)	52.9
Bank of America (Eq.), Calif.	49.8
American Nat'l Chicago (Eq.)	49.6
MSCI EAFE Index	**49.3**
Wells Fargo (Eq.), Calif.	48.1
Bankers Trust (Eq.), N.Y.	46.4
Marine Midland (Eq.), N.Y.	45.4
Bessemer Trust (E), N.Y.	44.3
Wellington Trust (Pacific Basin)	43.7
CIGNA Corp. (Eq.), Conn.	43.6
Chase Manhattan (Global eq.)	43.6
First of Chicago (Eq.)	43.1
Citicorp (Eq.), N.Y.	42.2
Putnam Fiduciary (Trust)	41.0
Aetna MIM (Eq.), Conn.	40.5

PIPER

Special equities

Continued from page 16

phasizing commodities and precious metals, according to Rich Collins, vice president of Citicorp Investment Management Inc., which manages the $30 million fund.

Those companies include **Royal Dutch Petroleum Co., Atlantic Richfield Co., British Petroleum Co., Alcan Aluminum Ltd., Aluminum Co. of America, Reynolds Metals Co.** and **Amax Inc.**

The fund benefited from takeovers and restructurings at **Standard Oil Co.** and **Texaco Inc.** and has increased its weightings in oil service companies such as **Dresser Industries Inc.** and **Halliburton Co.**

Larry Smith, portfolio manager of the two First Bank National Association funds, said he looks for undervalued stocks and companies with good asset values and good cash flow. The funds have holdings in **North American Philips Corp., Lone Star Technologies Inc.** and **Lukens Inc.**

The Putnam fund holds a core portfolio of small and medium-size rapidly growing companies of high quality. The remainder of the assets are invested in large S&P 500 companies that "do not necessarily have the long-term or future record the others have, but show good growth," according to Matt Weatherbie, managing director and chief investment officer of specialty growth equities.

For the quarter ended Dec. 31, First National Bank of Chicago followed First RepublicBank with a return of −10.1% and Citicorp's real estate stock fund was third with −13.5%. First National Bank of Neenah, Wis., and E.F. Hutton Trust Co., Wilmington, Del., tied for fourth place with returns of −14.7% on their respective regional bank and growth fund B funds.

For the three years, E.F. Hutton Trust followed First RepublicBank with a return of 40.5% on its growth fund B and 37.3% on its emerging growth B; First of Neenah's regional bank fund reported 25.5%; and Security Pacific Corp., San Diego, reported 23.8% on its growth fund G.

For the five years, Fidelity Management Trust Co.'s aggressive equity fund, Boston, ranked second with 21.4%; Trust Co. of the West, Los Angeles, reported a return of 19.9% on its special equity fund; First National Bank of Boston reported 17.4% on its equity yield fund; and Society National Bank, Cleveland, 17.2% on its Ohio regional equity fund.

For the 10 years, MTrust was followed by First National Bank of Maryland's special equity fund, Baltimore, with 19.7%, and First Alabama, Mobile's special stock fund with 19.1%. ■

Centerre Trust (Coll. W), Mo.	40.0
IDS Trust (Coll. eq.), Minn.	38.1
Morgan Guaranty (Eq.), N.Y.	37.8
Bank of America (Fixed), Calif.	37.7
First of Chicago (Non-$ fixed)	37.2
Wellington Trust (Stock), Mass.	37.0
Prudential (Global bond), N.J.	36.8
Prudential (Foreign bond), N.J.	36.8
Citicorp (Fixed), N.Y.	33.9
MSCI World Index	**33.2**
Morgan Guaranty (Bond), N.Y.	30.7
Toledo Trust (Global bond)	30.1
Toledo Trust (Eq.), Ohio	29.0
Wellington Trust (Bond), Mass.	27.5

5-year returns

	%
MSCI EAFE Index	**34.9**
Wells Fargo (Eq.), Calif.	33.5
American Nat'l Chicago (Eq.)	33.4
Bankers Trust (Eq.), N.Y.	32.9
Bank of America (Eq.), Calif.	30.7
IDS Trust (Coll. eq.), Minn.	29.6
First of Chicago (Eq.)	29.3
Centerre Trust (Coll. W), Mo.	28.4
Citicorp (Eq.), N.Y.	28.4
Bessemer Trust (E), N.Y.	27.8
Putnam Fiduciary (Trust)	27.4
Wellington Trust (Stock), Mass.	25.9
Morgan Guaranty (Eq.), N.Y.	25.4
MSCI World Index	**25.2**
Prudential (Global bond), N.J.	23.4
Chase Manhattan (Global eq.)	22.6
First of Chicago (Non-$ fixed)	21.6
Prudential (Foreign bond), N.J.	21.4
Bank of America (Fixed), Calif.	20.8
Citicorp (Fixed), N.Y.	18.2
Morgan Guaranty (Bond), N.Y.	18.2
Wellington Trust (Bond), Mass.	16.3

10-year returns

	%
MSCI EAFE Index	**22.8**
First of Chicago (Eq.)	20.6
Morgan Guaranty (Eq.)	19.3
MSCI World Index	**18.9**

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Beat the S&P

Continued from page 1

again. Moran recommitted its cash in seven waves until the end of the year, generally buying the stocks it had cut back before Oct. 19.

As an example, Mr. Moran cited **Telecommunication Inc.**, a cable television company the money management firm bought in the midteens and sold before the crash in the high 20s. "After the crash, we bought it back between 17 and 20 and the stock is now at about 26," Mr. Moran said.

Portfolio Timing Inc., as its name implies, is a market-timing manager. It uses a computerized money flow index that tracks institutional money flows into and out of various parts of the market, said Les Cathersal, vice president.

The firm, which has $15.2 million in tax-exempt assets under management, invests in no-load mutual funds, and moves in and out of the market about five times a year, Mr. Cathersal said.

Portfolio Timing became fully invested at the beginning of 1987, got out of the market in spring, got back in in summer and sold out Oct. 7. It then stayed out until Dec. 15 when it re-entered the market and picked up five or six percentage points before the end of the year, Mr. Cathersal said.

PSM Investors, also a market timing firm, manages $340 million in tax-exempt assets by buying into and out of mutual funds based on signals from a timing model that looks at stock market conditions.

According to Stan Lipstadt, chief investment officer, the firm received only one timing signal in 1987, on April 6, and that was a sell signal.

"Either that day, or the day after, the market hit 2,400 on the Dow (Jones industrial average) and then retreated before going up to 2,700," Mr. Lipstadt said. "We sold and were out of the market from April on. We missed everything from then until Oct. 19."

Mr. Lipstadt said his firm is still out of the market, but he expects a buy signal soon.

Lincoln National had two portfolios that beat the S&P 500 by more than 500 basis points — the emerging growth equity fund, which was up 31.4%, and the select equity fund, which was up 13.6%.

The emerging growth fund buys companies with capitalizations of $300 million or less that have earnings growth of more than 20% per year for the previous three years and with price-earnings ratios below the p/e of the industry.

If Lincoln can't find stocks that meet these criteria, it stays in cash. And if a stock no longer satisfies one of the screens, it is sold. As a result of both of these factors, the fund was 70% in cash in July.

However, after Oct. 19 it found good values and reduced its cash position to 50%, said a company official.

Citicorp Investment Management beat the S&P 500 by more than 500 basis points with three commingled and one separately managed tactical asset allocation accounts. The accounts move between stocks and cash, or stocks, bonds and cash, based on nine monetary, value and sentiment indicators.

The best performing account was a $140 million separately managed account run according to the Stockshift 200 strategy, which overlays futures on an index fund to achieve up to a 200% invested position. This account gained 29.6% for the year and has a three-year compound annual return of 31.4%.

The fund started the year 200% invested and dropped to 100% invested by the beginning of September. By Oct. 16 it was 60% invested and went back to 100% invested Oct. 21, finishing the year at 160% invested. It is now 180% invested.

The $40 million commingled account run by the same strategy, but more conservatively, was up 18.4% for the year. It has no three-year record.

Citicorp's Assetshift 50 commingled fund, with $35 million in assets, gained 14.4% for the year. This is a tactical allocation portfolio that varies among stocks, bonds and cash. After starting the year at 75% stocks and 25% bonds, it moved to 40% stocks, 50% bonds and 10% cash Oct. 13 and finished the year at 55% stocks and 45% bonds.

The Stockshift 100 portfolio, which simply moves between stocks and cash, was up 12.5% for the year. It began the year 100% invested and on Sept. 30 it was 80% invested. ■

This statistical information continued from page 1...

Managers beating the S&P 500 index by 500 basis points (1987)

Manager	1 yr.	Manager	1 yr.
Citicorp (Stockshift 200)	29.6	JMC Capital Mgmt.	13.2
Amerindo U.S. Advisors	29.3	Sanford C. Bernstein	13.2
Institutional Capital	28.7	Investors Research	13.1
Becker Williams	28.0	Security Pacific Investment	12.8
J.H. Ayers	26.6	Brundage Story & Rose	12.7
Capital Technology	25.7	James Investment Research	12.6
Buffalo Capital	25.5	R. Meeder & Associates	12.6
R.M. Leary	24.6	Citicorp (Stockshift 100)	12.5
Jundt Capen (emerging)	24.3	Simpson Capital Mgmt.	12.5
Avatar Associates	23.0	Crabbe-Huson	12.4
Pension Mgmt.	23.0	First Illinois	12.3
Schield Mgmt.	22.6	investment Advisers, Mpls.	12.3
Beverly Bank	22.4	T.A.L. Investment Counsel	12.3
Harris Bretall Sullivan	21.1	Renaissance Investment	12.2
Guildcor Financial	21.0	AIM Capital Mgmt.	12.1
BancOklahoma Trust	20.5	Front Street Capital Mgmt.	12.1
Citizens Heritage Bank	20.1	John McStay Investment	12.1
Phoenix Mutual	19.8	Commercial Nat'l, Shreveport	12.0
Leseene	19.6	First Interstate, Okla.	12.0
Jundt Capen (core)	19.3	First Investment Mgmt.	12.0
First Chicago Investment	19.2	Valley Nat'l Bank	12.0
First Fidelity Bank, N.J.	18.6	Heartland Capital Mgmt.	11.9
MSecurities	18.4	Allied Bank, Texas	11.8
MTrust (growth)	18.3	Montag & Caldwell	11.6
Webster Capital Mgmt.	18.2	Burgess Capital	11.5
Fiduciary Mgmt. Associates	18.0	Bank One, Richmond Ind.	11.4
Sec. Pacific Investment (E)	18.0	Dreyfus	11.4
New England Mutual (growth)	17.7	Hellman, Jordan Mgmt.	11.3
Capital Growth Mgmt.	17.1	Hutchinson Nat'l Bank	11.1
T. Rowe Price (NRIS)	16.9	La Sauve Garde	11.1
Beacon Capital Mgmt.	16.7	First of Elgin, Ill. (C)	11.0
Sun Bank Investment Mgmt.	16.3	United Missouri	11.0
Cashman Farrell	15.9	Astrop Advisory	10.9
Bank of New York	15.7	Investment Advisors, Houston	10.9
Amalgamated Trust	15.1	Kennedy Capital Mgmt.	10.9
Crown Life	15.0	Lincoln Capital Mgmt.	10.9
Cash Flow Investors	14.5	Associated Manitowoc	10.8
NM Rothschild	14.5	Norstar Trust	10.8
Sirach/Flinn Elvins	14.5	Wheeling Dollar Bank	10.8
Citicorp (Assetshift 50)	14.4	Buttonwood Capital Mgmt.	10.7
Olympic Capital Mgmt.	14.4	Marsh & Cunningham	10.7
Argus Investors Counsel	14.3	RCM Capital Mgmt.	10.7
Summit Trust	14.2	NCNB Nat'l Bank	10.6
T. Rowe Price (CAIS)	14.2	First of Elgin, Ill. (A)	10.5
First Alabama, Mobile	14.1	Manning & Napier	10.5
R.B. Haave	13.8	Bessemer Trust	10.4
Lincoln Nat'l Pension (SE)	13.6	GAMCO Investors	10.4
Longfellow Investment Mgmt.	13.5	Investors Research	10.4
First Alabama Bank	13.2	Meridien Mgmt.	10.4
Interinvest	13.2	S&P 500	5.3

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PENSIONS & Investment Age

March 21, 1988

The newspaper of corporate and institutional investing

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C2710-2
3/22/88

S&P issues expand lead

Beat others by 600 points

By Joel Chernoff

Stocks in the Standard & Poor's 500 index boosted their performance over similar non-S&P stocks last year, beating them by six percentage points.

More than one-third of the difference occurred during the fourth quarter alone, showing that the phenomenon — which started in 1980 — actually increased during the market crash.

"What happened during the crash is that S&P stocks corrected less than non-S&P stocks," said William Jacques, chief investment officer of Martingale Asset Management, Boston. Martingale and BARRA, a Berkeley, Calif.-based consulting firm, analyzed the S&P data.

The advantage of being included in the S&P 500 is drawing increasing attention from investment experts and pension executives. If the phenomenon continues, the implications are enormous for investors, issuers and financial markets alike.

But some are not convinced. "I don't think there's any content to these kind of results," said Steve Ross, principal in Roll and Ross Asset Management and Sterling Professor of Economics and Finance at Yale University. He said one would have to wait more than 20 years to see if the phenomenon is more than "a ghost" in the data.

The issue is separate from the debate on the merits of investing in small-capitalization vs. large-cap stocks. Many pension executives are pondering whether smaller-cap stocks are set for a rebound after a lackluster performance during the bull market, and whether their equity portfolios contain enough small-cap stocks from an asset allocation perspective.

Rather, this issue focuses on whether inclusion in the S&P will cause a difference in performance for stocks of equivalent capitalization.

In earlier research, BARRA and Martingale found S&P stocks beat their counterparts by an average of 3.25 percentage points a year in the 7½ years ended June 30. That gap has widened to 4 percentage points a year with the inclusion of the full-year 1987 data, according to Mr. Jacques.

Investment experts have attributed the difference to the growth in indexed stock funds, development of index futures and their use in program trading strategies, and more recent inflows of funds from foreign investors, particularly the Japanese, who tend to focus on the best-known stocks (*Pensions & Investment Age*, Sept. 7).

Since then, additional research and developments have emerged:

- The "membership anomaly" also pertains to foreign markets. Membership in the Morgan Stanley Capital International index in Japan made for a difference of 25 basis points per month in the 6½-year period ended June 30, according to BARRA.

"It appears the most likely cause for this phenomenon has been the increased international investment by U.S. institutional investors," according to a BARRA newsletter.

Continued on page 50

ESOP notes enrich Enron

$95 million to prepay bank loan

By Brad Rudin

HOUSTON — Enron Corp. has sold a $95 million issue of securitized employee stock ownership plan notes in a private placement that enables the energy company to prepay a bank loan used to finance the ESOP's purchase of Enron common stock in 1986.

Securitized ESOP notes are high-quality, floating-rate instruments sold to banks and other financial institutions that enable ESOP plan sponsors to refinance loans used to purchase the stock (*Pensions & Investment Age*, Dec. 14).

The Enron ESOP owns about 20% of the company's common stock. In 1986, the ESOP borrowed $335 million to buy 8.7 million shares. All but $95 million had been repaid prior to the notes' issue, said Mark Koenig, director of pension investments at Enron.

The securitized ESOP notes, due June 30, 1993, were placed last month by Bankers Trust Co., New York, which also serves as remarketing agent and trustee.

Bankers Trust calls its securitized ESOP notes FRESOPS, or floating-rate ESOP

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Houston-based Enron Corp. saved between 25 and 50 basis points by refinancing a bank loan with a $95 million private placement of securitized employee stock ownership plan notes.

INSIDE

PROPERTY supplement in this issue

The marriage of corporate finance and real estate, disparity in manager fees and syndication problems of the Japanese are among issues examined in the

PROPERTY

Corporate deals driven by realty

Pension fund is new player in securities

vary by 388%

Mortgage woes grow

Insurers plagued by non-performing loans

By Fred Williams and John Covaleski

Non-performing mortgages held by insurance companies nearly tripled in two years, and those held by The Travelers Corp., Hartford, Conn., are almost triple the industry average.

Because mortgages back many of the guaranteed investment contracts purchased by institutional investors, analysts and industry insiders say investors should concentrate not just on returns, but on the underlying investments made to attain the returns.

Non-performing mortgages among 21 carriers climbed to 3.23% of the insurers' total mortgage portfolios as of Dec. 31, vs. 1.16% as of Dec. 31, 1985, according to the American Council of Life Insurance, Washington, in part because of heavy concentration in the Energy Belt. At Travelers, non-performing mortgages hit 10% as of Dec. 31, according to a report by First Boston Corp., New York.

(Non-performing mortgages are 60 days or more past due on non-agricultural loans, and at least 90 days past due on agricultural loans.)

By comparison, Mutual Life Insurance Co. of New York, New York, reported 2% of its $4.2 billion mortgage portfolio was non-performing at year end, and Phoenix Mutual Life

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LATE NEWS

Executives change positions

Axel H. Swanson III, vice president and treasurer at National Gypsum Co., Dallas, will retire March 31 after 30 years at the company. He will be replaced by Paul T. Even, assistant treasurer. Mr. Even joined National Gypsum in 1971 and has also served as manager-cash and investments and as audit manager. He also is president of the National Corporate Cash Management Association.

In Olympia, Wash., David Weig has been named acting director of the $13 billion Washington State Investment Board. He fills in for outgoing executive director, John A. Hitchman, who is resigning effective March 31. Mr. Weig, who was Mr. Hitchman's deputy director, said a search is under way for a permanent replacement, with resumes being accepted until April 15. "I am considering putting my name in for the permanent job," he said.

Mitsui, Scudder sign agreement

NEW YORK — The Mitsui Trust & Banking Co. Ltd., Tokyo, and Scudder, Stevens & Clark Inc., New York, will embark on a long-term cooperation agreement. The two firms will exchange trainees and hold semiannual formal investment discussions in New York or Tokyo.

Mitsui will assist Scudder in marketing in Japan and explain the workings of specified money trusts, or "tokkin." Scudder, which manages $36 billion in assets, will further Mitsui's understanding of the organization and operation of U.S. investment companies and develop the firm's U.S. equity and fixed-income capabilities.

Cabot joins NYSE pension panel

NEW YORK — Walter M. Cabot, president of Harvard Management Co., Boston, has been appointed to the New York Stock Exchange's pension managers advisory committee, rounding out the 20-member panel. The other 19 members were named last month. Its first meeting is March 24.

Presbyterian fund shifts assets

PHILADELPHIA — The Board of Pensions of the Presbyterian Church (U.S.A.), with $1.9 billion in pension assets has terminated one manager and moved some money around temporarily until new specialty managers are hired, according to Wm. Irwin Arbuckle II, vice president-investments and treasurer.

Mr. Arbuckle said the board had terminated a $45 million aggressive growth account with Fred Alger Management Inc., New York, and moved the money temporarily to an extended market index account with Wells Fargo Investment Advisors, San Francisco.

He said the move was spurred by the board's desire to shift strategies to a small-cap portfolio. "Alger was an excellent aggressive growth manager. We felt the life cycle of that style was over for us and it was time to make a change."

Callan Associates, San Francisco; Debatin & Associates, Atlanta; Cambridge Associates, Boston, and Mellon Measurement Service are consultants.

INSIDE

Funds skip strategy — P. 41

Futures arbitrage took a bad rap in the October market crash, and although old customers are remaining steadfastly loyal to the strategy, the figurative black eye it now sports seems to be scaring away potential clients.

World markets update — P. 17

Although institutional investors have dominated the world's markets during the 1980s, some investors wonder whether the crash of 1987 might have been a deathblow to global investing. *Pensions & Investment Age* takes a look at this and other issues.

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Vol. 16, No. 6 — Pensions & Investment Age (ISSN 0273-5466) is published biweekly with a special edition in May, at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207. Copyright 1988.

Adviser questionnaires overdue

The deadline has passed for submission of questionnaires for *Pensions & Investment Age*'s annual money manager directory.

The issue, profiling the nation's institutional money managers, will be published May 23.

If you have any questions or have not returned your questionnaire, please contact Christine Philip, directory coordinator, *Pensions & Investment Age*, 740 N. Rush St., Chicago, Ill. 60611-2590. You may call Ms. Philip at (312) 649-5217.

Institutional investors are study's focus

Corporate role scrutinized

By Marcia Parker

NEW YORK — Columbia University has begun a major long-term effort to explore the role of the institutional investor in large publicly owned corporations.

The project, based at the university's Center for Law and Economic Studies, is getting off the drawing board at a time when institutional investors — the biggest stockholders in companies — are wrestling with what role they want to play in corporate America.

Once passive stockholders, institutions have in recent years become activist stakeholders, anxious to make sure management hears their views and feels accountable. But these investors have not yet defined how they wish to translate ownership into action.

The co-founders of the center — Ira Millstein, a senior partner at Weil, Gotshal & Manges, a New York law firm, and Louis Lowenstein, Columbia University Law School professor — cite several other pivotal trends that sparked their efforts to devise the project: the public debate over unprecedented levels of merger activity; the conflict about shareholder voting rights; and the growing importance of pension funds and other institutional investors.

In addition, they say the October market crash heightened awareness of concerns regarding the volatility of capital markets and the growing tensions in the relationships between fiduciaries and money managers on the one hand and boards of directors and officers of corporations on the other.

The founders of the Columbia project, which will involve a series of parallel studies over a period of several years, hope their work will become an ongoing focal point for data collection, research and analysis on the interaction of American industry and institutional investors. They are still working out a draft for the project, which is expected to change as they get input from board members.

Based on the initial draft, one aim is to fill the substantial gaps in the knowledge of how fiduciary trustees and professional money managers select, hold and vote shares, and their perception of their various roles in the securities markets.

A second objective is to study other financial systems, particularly England and the so-called bank-based systems of West Germany and Japan, to understand the interaction of corporations and institutional fiduciaries and money managers and how their experience might apply to the United States.

The third goal is to develop a discussion between fiduciaries and fund managers and corporate boards and officers concerning such critical issues as when and how institutional holdings are acquired and disposed of, voting patterns of institutional holdings and fiduciary obligations of trust-

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Funds retain Texas bank

By Fred Williams

DALLAS — Institutional trust clients of beleaguered First RepublicBank Corp., Dallas, are keeping a watchful eye on the bank's financial condition, but have not abandoned the bank.

First RepublicBank reported losses of $347.8 million in the fourth quarter of 1987, bringing

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First RepublicBank Plaza

Rate indexes premiere

Pensions & Investment Age will publish each month market-related interest rate indexes developed by two consulting organizations to calculate unfunded pension liabilities.

Buck Consultants, New York, and Ennis, Knupp & Associates Inc., Chicago, created the indexes in response to the Financial Accounting Standards Board's Statement 87, which required companies to calculate unfunded liabilities using a market-related interest rate but did not specify what the rate should be.

The two organizations developed the indexes in different ways.

The Buck Forward Rate Index, as its name implies, is based on forward rates. A forward rate is the price at the beginning of the year, expressed as an interest rate, of a unit of cash flow that will be received at the end of the year.

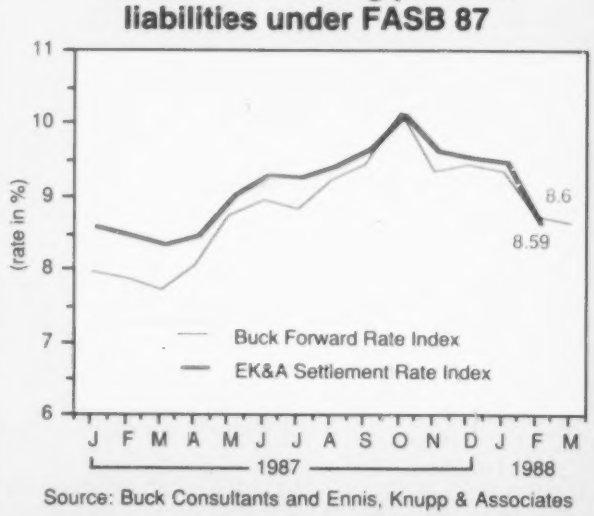
Buck bases its index on the forward rates for U.S. Treasury securities. The forward rates based on the term structure of interest rates on Treasuries are applied to the cash flows of a model pension plan to determine the present value of benefits. A calculation is then made to determine what single interest rate will produce the present value. Separate calculations are made for active employees and retired employees, and the weighted average of these two rates is the Buck Forward Rate Index.

The Ennis Knupp & Associates Settlement Rate Index is based on the annuity rates used by insurers to price pension obligations of companies that wish to terminate their pension plans. This rate has become known as the settlement rate.

Because insurance companies set their rates independently, based on the demand for their assets, current interest rates and past settlement rates, there is no universal settlement rate.

Ennis Knupp uses an algorithm to estimate current settlement rates from long-term bond rates and historical settlement rates. The latter are supplied by a number of insurance companies active in the group annuity market. ■

Indexes for valuing pension liabilities under FASB 87



Source: Buck Consultants and Ennis, Knupp & Associates